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EX PARTE

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April 23, 1997

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

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APR 23 1997

Re: Ex Parte Presentation in CC Docket No. 96-262

Dear Mr. Caton:

On Tuesday, April 22, 1997, Dr. Sarah Goodfriend (MCI) met with Jim Casserly, Senior Legal Advisor to Commissioner Ness, via telephone conference. The purpose of the meeting was to discuss a NARUC presentation by Dr. Goodfriend explaining the difference in pricing and transition issues in the telecommunications and electric industries. The attached document briefly outlines the topics discussed.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(2) of the Commission's rules the next business day.

Sincerely,

Kimberly M. Kirby

Attachment

cc: Jim Casserly

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POLICIES FOR TELECOMMUNICATIONS AND THE ELECTRIC INDUSTRY Industry Differences And Transition Pricing

Sarah Goodfriend, PhD
MCI Telecommunications Corp
NARUC Winter Meetings
Staff Subcommittee on Communications
2/23/97

Differences are fundamental

- Single versus multi-product capable facilities
 - Complexity of technology
 - Substitutability of plant across products
- History and traditions of regulation
 - G-T-D vs. LEC investment cycle
 - Responsive regulatory processes

Transition charges for stranded assets

- What are stranded assets?
- What is the shortfall in revenue for an identified asset?
- Stranded asset recovery and recovery of lost revenues are not the same

Making Sense of a Senseless Comparison

3 Principles and 6 Reasons why there are
no stranded assets in the regulated local
exchange network

Principles

- Identify the specific asset claimed to be stranded
- Identify what the specific asset has earned, is earning and will earn over its anticipated (regulatory) life
- Separate cost recovery from revenue recovery claims

Electric G-T-D Company

■ Identified Assets

- Generation
 - » Facility Bypass Widespread
 - » Assets Lack Alternative Use
- Lawfully compelled above cost contracts
- Social Policy Investments, Other Expenses Booked As “Regulatory Assets”
- Remaining Life Cycle Costs (Financially) Significant

■ Asset Regulation

- » Rate-of-return predominated
- » Prudence, Used and Useful Reviews applied
- » Future separation of G-T-D

Local Exchange Carrier

■ Identified Assets?

- Limited near-term facility bypass
- Strategic investment in assets having alternative uses
- Remaining life cycle costs not financially significant (depreciation analyses)

■ Asset Regulation

- Price cap predominated
- Investment review limited
- Future new uses for regulated assets

Where are the identified assets? Analysis of the Interstate Access Gap

Price Cap LECs revenue of \$21.5 billion less economic cost of \$9.9 billion leaves an 11.6 billion gap

Source	Annual Revenue (\$Billion)
Universal Service	1.3
Excess Profits	1.7
Overbuilt Plant	3.2
Depreciation Reserve Deficit	.2
Residual/Operational Inefficiencies	5.2
Total Gap	11.6

Table Source: MCI Comments to FCC 1/29/97

There is no takings claim: Attracting capital on reasonable terms through an economic transition

■ Electric G-T-D Companies

- Increasing costs followed by decreasing costs; periods of financial stress
- Intense regulatory scrutiny and disallowances including bankruptcies; rate-of-return
- Existing regulatory assets cannot be highly leveraged in new markets

■ Local Exchange Carriers

- Decreasing costs, increasing productivity and financial strength
- Rare regulatory scrutiny of investment costs; price cap regulation
- Past strategic investments and regulated investments are central to plans

Summary of 6 reasons

- Asset (lifecycle) transition and regulatory transition do not interact to create distress
- Multi-purpose plant facilities
- Past regulatory scrutiny of regulated investment circumscribed
- No asymmetric price or service obligation going forward
- No regulatory policy “gotcha”
- Capital attraction on reasonable terms not in jeopardy

No stranded assets